

"(a) GOVERNMENTAL PLANS MUST  
MAINTAIN SET-ASIDES FOR  
EXCLUSIVE BENEFIT OF PARTICIPANTS.—

"(1) IN GENERAL.—A plan  
maintained by an eligible  
employer described in subsection (e)(1)  
(A) shall not be treated  
as an eligible deferred compensation  
plan unless all assets  
and income of the plan described in  
subsection (b)(6) are held  
in trust for the exclusive benefit of  
participants and their  
beneficiaries.

"(2) TAXABILITY OF TRUSTS AND  
PARTICIPANTS.—For  
purposes of this title—

"(A) a trust described in paragraph (1) shall  
be treated  
as an organization exempt from taxation under  
section  
501(a), and

"(B) notwithstanding any other provision of  
this title,  
amounts in the trust shall be includible in the  
gross income  
of participants and beneficiaries only to the  
extent, and  
at the time, provided in this section.

"(3) CUSTODIAL ACCOUNTS AND  
CONTRACTS.—For  
purposes  
of this subsection, custodial accounts  
and contracts described  
in section 401(f) shall be treated as  
trusts under rules similar  
to the rules under section 401(f)."

(2) CONFORMING AMENDMENT.—Paragraph (6) of section  
457(b)  
is amended by inserting "except as provided in  
subsection (a)."   
before "which provides that".

(3) EFFECTIVE DATES.—  
26 use 457 note.

(4) IN GENERAL.—Except as provided in paragraph  
(2), the  
amendments made by this section shall apply to  
assets and  
income described in section 457(b)(6) of the Internal  
Revenue  
Code of 1986 held by a plan on and after the date  
of the  
enactment of this Act.

(5) TRANSITION RULE.—In the case of a plan in  
existence  
on the date of the enactment of this Act, a trust  
need not  
be established by reason of the amendments made  
by this  
section before January 1, 1999.

SEC. 1449. TRANSITION RULE FOR COMPUTING MAXIMUM  
BENEFITS  
UNDER SECTION 415 LIMITATIONS.

(a) IN GENERAL.—Subparagraph (A) of section 767(d)(3) of  
the 26 use 411 note.  
Uruguay Round Agreements Act is amended to read  
as follows:

"(A) EXCEPTION.—A plan that was adopted and in effect

before December 8, 1994, shall not be required to apply the amendments made by subsection (b) with respect to benefits accrued before the earlier of—

(i) the later of the date a plan amendment applying the amendments made by subsection (b) is adopted or made effective, or

(ii) the first day of the first limitation year beginning after December 31, 1999.

Determinations under section 415(b)(2)(B) of the Internal Revenue Code of 1986 before such earlier date shall be made with respect to such benefits on the basis of such section as in effect on December 7, 1994 (except that the modification made by section 1449(b) of the Small Business Job Protection Act of 1996 shall be taken into account). and the provisions of the plan as in effect on December 7, 1994, but only if such provisions of the plan meet the requirements of such section (as so in effect).".